



MILAAP: PROFIT AND NON-PROFIT CO-EXISTENCE FOR SOCIAL IMPACT

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Abstract: Start-up culture has picked up in India for over a past decade. But not all startups have been able to impact the economy with their corporate philosophy or have had a social impact, relevance, and feasibility. It's hard to find a startup that is really doing something unique and making a difference. The rarest of rare being the one that is equally running a business and is also having a social impact. Is there any? Yes, there is one – Milaap- a crowdfunding platform that runs programmes for micro-funding and donation for personal causes. Imagine a young kid gets diagnosed of a rare heart disease and requires a few lakhs to get operated upon the kid's mother has a small time job of a receptionist in a small organization and her husband does an odd plumbing job. With no savings- a situation of crises strikes the family. The only options in this scenario are to approach family and friends which may help but only hampering their social lives or move to small-time money lenders which is a common source of borrowing – risking her collateral and being buried under the vicious cycle of interest payments which are as high as 50-60%. No banks or financial institution would help her due to here low income and inadequate paperwork. Anyone of us could be in this situation. Now imagine the same in a digitally connected world, where the mother can create an online donation webpage within a few minutes, send her appeal to others, and start raising funds. People can donate and share the campaign on social media with just a click. That ease-of-use, propagation on social media, and one tap donations on a phone can get the mothers appeal to strangers across the world. Milaap has innovatively put the globally famous business model of Crowdfunding to providing basic loans for grassroots projects and also helps families raise money for situations through donations.- A rare combination of business where “For - Profit” and “Not-For-Profit “ go hand in hand over the same platform. With four years into Milaap and micro lending through crowdfunding, Milaap launched a Milaap 2.0 (also referred as “Milaap You”) where it began crown funding for personal causes.

Keywords: Start up, Crowdfunding, Social Impact

Introduction: Tech startups regularly grab headlines with billion-dollar fundraising or acquisition deals and massive IPOs. But, there's a crop of startups that have something other than a massive payday in mind. An idea can be converted into a start-up. Even sometimes the crisis becomes the opportunity and it gives birth to the start-ups. Many times we have seen that we have an idea but we do not dare to initiate it or we do not find it worthy.

Growth is paramount in any business venture and especially to be on headlines or raise huge capital numbers to justify business. Although Non-profit or CSR activities are still not mainstream for corporates in India and gimmicked only for goodwill, the startups that have cropped up over the last decade also follow the trend set by the established giants of industry. For-Profit organizations have had a clear matrix of growth they just have to prove one thing — whether or not they can make money with the desired scalability.

As we highlight the “For- Profit” startups and organizations, It's not unusual or novel today to see startups that have a social impact or working towards the benefit of society rather than just running behind money. They may get termed as an NGO but surely are making difference. For non-profit ventures, options are far more limited to raise capital or to reach headlines like their counterparts on the profit side do. They have to be smart and creative to demonstrate impact to actually attract money and talent.

While there are enough startups on both sides the rarest of rare of them have been the ones that have kept the balance- while they work “For-Profit” and drive their business models, they have enough focus and activities under their belt that strives toward working on the “non-profit

side”.

One such start-up is Milaap that has beautifully transformed technology with the concept new to Indian shoes serving both the stakeholders with profit and impacting people that lie at the bottom of the pyramid and usually struggle in their normal day of life.

Literature Review: The fact that the term “crowdfunding” was created but a decade ago it's a reasonably new development. Theoretical or academic works on crowdfunding, in particular, are still in its early stages though it gained a lot of attention over the last two-three years. This has conjointly caused by the success of popular and international crowdfunding platforms and an inclination to restricted access to traditional sources of funding for a new generation of entrepreneurs.

A literature examination on Google Scholar exhibited a sharp increase of publications, especially in the last 2-3 years. The total number of publications is vast but the Google Scholar search includes many sources next to the big publishers who provide peer-reviewed articles. Those Databases like EBSCO, Scopus, Thomson Reuters, Web of Science showed a different range compared to Google Scholar but a similar rising curve.

The variations in outcomes of total publications and notable academic work show a momentous need for action in the academic area. The current trend combined with the accelerators such as the Jumpstart Our Business Startups (JOBS) Act. and SEBI's white paper on crowdfunding can be assumed to become even more popular and diverse. Gerber *et al.* (2012) goes even further saying, “Crowdfunding has the potential to fundamentally impact how we function economically and socially by facilitating the realization of new and innovative products and services

Therefore, it will be useful to fit in crowdfunding into the existing works to define its role in theory and discuss its resulting practical consequences. One has to draw mostly concepts and theories from research in parts of

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economics (behavioral economics, microeconomics, entrepreneurial finance) and social-psychology (motivation, drivers, behavior) to describe, analyze and discuss the context of crowdfunding.

Entrepreneurial finance draws its principles from entrepreneurship and finances it is the application and adaptation of financial tools, techniques, and principles to the planning, funding, operations, and valuation of an entrepreneurial venture and crowdfunding is one such tool in the early stage of an entrepreneurial venture. This stage refers to ventures with a little operational history that is in their development or start-up stages (Leach, Melicher, 2009). From a financial perspective bootstrapping (Bhidé, 1992; Winborg and Landstrom, 2001; Ebben and Johnson, 2006) is a related branch of research. Entrepreneurs apply bootstrapping techniques to mitigate their financial constraints by reducing cash flow needed and use entrepreneur's personal assets (Leach, Melicher, 2009). Both tools use alternative ways of financing apart from traditional finance (e.g., bank loan, angel capital, and venture capital

Cosh *et al.* (2009) analyzed a broad range of alternative methods for start-up financing but in this context, propositions cited evidence that social networking methods (crowdfunding platforms among others) could provide a solution for seed capital gaps resulting from the market failure. Rao and Giorgi (2006) argued that "collective vehicles through which people mobilize supporters for collective action are also essential for social movements". Crowdfunding platforms are the result of a social movement that arose in reaction to the mentioned funding gap and the emergence of Web 2.0 technologies that are enabling new forms of social networking (Adams and Ramos 2010). A third pillar involved in the rise of crowdfunding is the people. People's motivation differs from those of traditional investors. Tom Serres (Rally.org) spoke about a cultural shift and the "cause economy" by Dave Girouard (former Google

Enterprises president) and Jessica Jackley (founder of micro-finance platform Kiva) talking about that people share the notion to participate and be involved in the creation of something new.

Crowdfunding main source of literature is from the research analysis of Professor Ethan Mollick *et al.* (2016) "The dynamics of crowdfunding an exploratory study". Mollick Research study attempts to recognize what makes for successful crowdfunding campaigns and how shared geography and personal networks help in raising on the initial capital.

As we have spoken on the crowdfunding looking on to the other aspect of business-Social Entrepreneurship. Social Entrepreneurship is also a very loosely defined term. Most of the social entrepreneurship research is quite anecdotal based (Boschee, 1995) or case studies (Alvord *et al.* 2004), Social Entrepreneurship is also taken on a variety of meanings (Dees 1998)

By using these various sources in this paper an effort is made to know about crowdfunding platforms in the Indian framework. The startups are new ventures but how the startups were reinvented. NASSCOM data, World Bank report and journal papers about the crowdfunding are evidence collectors for this Research paper. This paper made an attempt to study the innovative concept of crowdfunding and how its models are beautifully used to run a business that is "For Profit" and also is impactful to the society. This paper also discusses the Indian legal framework and the sustainability analysis of such businesses.

Research Methodology and Objectives: The study is based on the secondary data which has been put together through websites, newspapers, magazines, government reports, books, research papers etc. The study is based on following objectives:

1. To study innovative startup business models.
2. To study how innovation can have a social impact and how startups can contribute to these

3. To analyze whether “For profit” and “Social Impact” can successfully co-exist.

4. To study the various policies, programs, agencies involved in enhancing the start-ups.

Crowdfunding Overview: Crowdfunding is the idea of funding a business venture, project, start-up or a cause by way of raising money from multiple investors or contributors through an online platform. Crowdfunding platforms are used to raise money in form of equity, debt or donations. Among the various ways of funding, most popular is seed capital and venture capital for start-up businesses but others are also picking up, Venture capital and seed capital are difficult to access for startups. Crowdfunding provides low cost of capital and higher returns for the investors. This has made crowdfunding a safe option for raising capital for startups having a fewer capital raising options.

As crowdfunding is picking up pace this model is being used by varied industries for a variety of fundraising purposes. Broadly crowdfunding platforms are classified into four categories.

1. **Donation-based crowdfunding:** In donation-based crowdfunding campaign funds are raised for charitable projects, disaster relief, and nonprofits organizations. Donations are accepted from a large number of people in small proportions. People can avail an opportunity to share money towards social causes. In this platform they are no financial return for the investors there is no chance of loss of investment.

2. **Reward-based crowdfunding:** In this platform investors receive rewards in return for their investment. This can be product or service the company offers as a token gift. In order to impress investors, companies attract with different types of rewards as incentives. In Reward-based crowdfunding, the investors are not availing financial return.

3. **Debt-based crowdfunding (also known as “peer to peer”, “P2P” or crowd lending):** Companies can apply for debt on these platforms. Debt-based crowdfunding platforms review and launches it online for

funds. Online application for fund includes company’s interest rate, credit period and risk involved in the securities or bonds for sale. In return for the securities, the investors get interested in these unsecured loans. Debt is repayable after a fixed period by the company.

4. **Equity-based crowdfunding:** On this platform investor receive equity shares of the company in proportion to the money invested. Investors in return receive a financial return on their investment. They receive a share of the profit as dividend. In this form, investors are prone to more risk as they are treated as investing in an unlisted company. Every country has its own set regulations regarding the investments through these crowdfunding platforms

Crowdfunding: The India Scenario

Crowdfunding is a new concept for Indian investors. Usage of the internet for raising capital requirements is very low compared to western countries. When the traditional financial system failed to support startups this alternative cropped up. Online marketing & online payment options made Indian investors accessible to crowdfunding ways. India is the second largest in operating the internet market. Now with the startups initiative picking up the concept is becoming familiar. As per World Bank report 2013, India has only 10 crowdfunding platforms compared to 344 in the US and 87 in the UK. The business report estimates nearly to 200 companies have raised INR 445,074,366 on these platforms over the past 18 months. As many as 60 startups are already merged with large companies. Indian and Foreign companies are engaging with startups through collaboration, accelerations, and investment.

Some popular crowdfunding websites in India

1. Catapooolt – <http://www.crowdfundinsider.com>
2. Ignite intent – <http://igniteintent.com>

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National Conference on Start - Ups: Innovation To Reality (from Ideas to Markets)

3. Ketto – <http://ketto.org>
4. Pick a venture – <http://www.signup.pikaventure.com>
5. Start 51 – <http://www.start51.com>
6. Wishberry – <http://www.wishberry.in/>

Regulations on Crowdfunding

SEBI guidelines:

1. India is considering crowdfunding as a need for the funding source for startups but is also to save retail investors from the risk of losing money in fraud or scams in name of start-up companies. With this cautious approach, SEBI has proposed to allow only Accredited Investors to participate in crowdfunding.
2. These include QIB's (Qualified Institutional Buyers), companies incorporated under the companies act 2013 and those companies whose minimum net worth is 20crores, HNI's (High Net Worth Individuals) with a minimum net worth of Rs.2crore and Eligible Retail investors (individual investors with small investment)
3. Collectively
 - QIBs will need to hold a minimum of 5% of the securities issued and a
 - A Company or a Body Corporate will be required to purchase at least 4 times the min offer value per person.
 - A high net worth individual is required to purchase at least 3 times the minimum offer value per person.
4. Retail investors include those who can avail services of the portfolio manager or investment advisor whose annual gross income is more than 10 lakhs and should have filed the tax returns for last 3 years. These investors having sufficient resources with them they can face the loss, certify that upto max Rs.60000 in an issue through crowdfunding. Retail investor's overall investment in a year should not exceed 10% of their net worth.

About Milaap: Milaap is a for-profit social enterprise that enables people around the world

to provide loans to the working poor in India. Based in Bangalore and Singapore, it is the world's first and currently, the only online micro-lending platform that enables non-Indians and non-resident Indians (NRIs) to provide loans to working poor in India.

Milaap is co-founded by 3 young entrepreneurs (Anoj, Mayukh, and Saurabh) who have experience in IT, microfinance and also in solar energy. Anoj graduated from the National University of Singapore and is a founder member of the Microfinance Society in Singapore. In the past, he has worked with SKS (part of the energy product pilot team) and Delight (end-user consumer financing strategy). Mayukh is an electrical engineer from IIT Madras and a PGDM from IIM Lucknow. He has some interesting experience in building technology-enabled financing models - working in consumer lending, distribution, and sales network for solar-lanterns at D.light. Sourabh Sharma (currently not associated with Milaap) has a degree in Computer Science from University of Singapore (NUS). Before Milaap, he established a start-up and later successfully traded his mobile application to Onmobile.

Milaap facilitates lending in the areas of energy, education, and training, enterprise development, sanitation, and water. The organization seeks to fund loans that create permanent change in people's lives by providing basic needs, job guaranteeing skills and working capital that helps small businesses grow. Milaap aims to establish portfolios for renewable energy (solar lanterns, micro grids), sanitation and vocational training as scalable asset class funded by banks and other mainstream financial institutions.

Milaap has been able to acquire the Reserve Bank of India (RBI) approval (ECB in June 2011) to source money to lend in India. It addresses the key constraints of capital and cost faced by MFIs while lending for unconventional products such as water and sanitation, energy and vocational training. It raises funds for on-lending both internationally and locally in India and subsequently disburses these funds through

partner organizations in India. The turning point for Milaap was when they received the RBI approval for receiving foreign funds in India to lend to other MFIs. This has served as a game changer as it is much easier to raise 50 dollars from a non-Indian than raising Rs 2500 from an Indian. This has been confirmed as the average loan received by Milaap today from a non-Indian is Rs 5000 and from an Indian is Rs. 800. Also, the industry took notice of Milaap as a result of them getting this RBI approval.

Most of the funds mobilized by Milaap comes from HNIs and foundations. Retail online lending is speeding up. Penetrating the U.S. market – particularly the large and affluent diaspora or NRI population – has always been considered by Milaap’s founders as a key to sustained growth. To continue to build their U.S. presence, Milaap hired a professional digital/social media promoter based in Washington D.C. Milaap has been able to solicit the support of several business people and industry leaders to informally promote Milaap within the growing South Asian community in the Southwestern states, and in particular Texas. Milaap coordinates with multiple authorities and associated rules and regulation both in India and abroad. In order to facilitate smooth operations, Milaap has developed an innovative operational structure that involves four separate companies. Legal structure -

A. Milaap Social Ventures (MSV): A Private limited company in Singapore. This entity raises equity and owns the entire lender base and bears all technology and marketing costs of the platform

B. Milaap Social Ventures Pvt. Ltd. (India): Subsidiary of MSV Singapore which carries out operations on the ground in India

C. Inclusive Planet Technologies (IPT): Singapore based entity which receives all international money and lends foreign loans as an approved “External Commercial Borrowing” (ECB) lender to KVVS

D. Kashi Vishwanatha Vidya Samasthe (KVVS): Non-profit society, registered under

the Societies Act 1860 in India. Society receives foreign capital via ECB from IPT and local Indian capital directly and subsequently lends the money to all field partners.

Milaap has a number of equity investors which includes individual investors (Jayesh Parekh, Rajiv Madhok and Vijay Shekar Sharma and ToivoAnnus) and institutional investors (First Light Ventures, Jungle Ventures, Lion rock Capital, ToivoAnnus, Unitus Seed Fund). Milaap has also partnered with Kiva in December 2014 and till June 2015 has lent around \$80,000 in partnership. Milaap uses Kiva’s crowd-sourced capital to reach people and places that are not covered by traditional MFIs. Milaap’s loans on Kiva are from its field partner Prayas for Sustainable Development (Prayas). Milaap partners with Prayas to provide enterprise development loans to industrious rural women entrepreneurs in Gujarat and Madhya Pradesh, India. Madhya Pradesh and Gujarat have low levels of microfinance coverage. Prayas lends to clients that do not have loans from other sources.

Business Model and Sustainability: In order to meet fund requirement of field partners, Milaap occasionally borrows commercial capital from different sources. Additionally, Milaap has been able to also raise interest-free revolving loan funds and grants from India based and international development organizations like Arc Finance. A significant chunk of Milaap funds is in foreign currency which results in associated hedging costs to be incurred. There is also the cost of payment gateways for processing online loan made by individuals. Overall Milaap estimates its average cost of the fund at 3-4%.

Milaap has following revenue model –

- For raising this fund for field partners Milaap charges 5% upfront fees (approx. 10 APR) plus 0%-6% interest rate based on the tenor of the loan. This results in the average return of 10-16% for Milaap.
- Milaap allows individuals and institutions to host their projects on its website and raise funds.

Milaap charges 5% of funds raised as service charge to cover marketing expenses incurred to distribute and promote their stories across online media channels, driving awareness and attracting supporters to the cause of the fundraiser

Based on the above-mentioned cost of fund and revenue streams, Milaap's operating margin seems to be more than 5% of the fund raised and disbursed. Presently, this margin allows Milaap to cover a fraction of its operational costs as it works towards achieving self-sustainability. Till Milaap achieves scale and achieves operational breakeven, Milaap is raising investment from individuals and institutions which share Milaap's vision.

Based on these estimates (though not verified by Milaap's financial statement) and traction Milaap is receiving from donors and field partners, its business model seems to be sustainable and Milaap is able to bring on-board established equity investors like Jungle Partners and Unitus Seed Fund in recent rounds of equity funding. However, there are some challenges with respect to disclosures and transparency.

The business and social impact of the startup was so powerful that today. Milaap has disbursed 62,008 micro-loans through its 60+ partner organizations, which have impacted the lives of over 288,000 BoP (Bottom of Pyramid) people. The repayment rate for the micro-loans has been a remarkable 99.21 percent- Much much higher than any banks or financial institutions

Milaap shared that as on March 31, 2015, it is operationally break-even and financial break-even is expected to be achieved outstanding portfolio level of Rs.300 million in next three years

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